

Energy transition to fuel robust demand growth for copper

We expect a synchronised recovery in copper demand from both China and other economies next year. Energy transition-related copper demand is set to accelerate as the world pivots towards a 'green recovery' after the pandemic. Given the bullish demand narrative and favourable macros, risks for the market are tilted to the upside



A stunning market recovery after Covid-19 rattles supply

Following the Covid-19 blues, London Metal Exchange copper has bounced back strongly as a result of the robust demand recovery from China and a weaker USD. While on the supply side, Covid-19 has primarily disrupted some mine operations in Latin America, but as some mines have returned, the world's largest copper miner, Chile is on track to achieve modest output growth this year.

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Overall, this year's disruptions compounded with a major mine that is transitioning underground and will lead to the global mine supply declining by 2% YoY in 2020, before rising to 3.1% YoY next year. For 2021, the disruption rate is expected to remain well above the long-term average, largely due to uncertainties around labour contract renewals. Meanwhile, the concentrate market has remained tight due to robust demand from smelters. This is evident in the lower treatment and refining charges (TC/RCs) on spot terms, which dropped to an eight-year low of around US\$50/tonne compared to the annual benchmark of US\$62/tonne for 2020.

Further tightening the market was China's restriction on scrap copper imports, while Covid-19 related disruptions didn't help. China customs data shows that copper scrap imports into China dropped 50% YoY over the first ten months of 2020. As a result, the shortfall in scrap supply saw the market turn increasingly to cathode. However, in October, China released the new HS code for high-quality copper scrap imports, which will allow any scrap which meets the new standards to be imported without restrictions from 1 November 2020. As this helps in clarifying the standards for imports, we expect higher grade scrap imports into China to recover from this year's low, but it may take some time for market participants to adapt to the changes.

Demand recovery along with robust imports from China

The recovery in copper demand has primarily been driven by a speedy demand recovery in China, and further fuelled by government-led investment in metal intensive sectors after the lockdown. Real copper demand is driven by traditional old infrastructure projects in parallel with projects put forward under new infrastructure initiatives.

Other sectors have also seen a speedy recovery since 2Q20, which has helped to drive copper usage higher. This includes the property sector, the automotive industry, while a recovery in exports of copper intensive end-use products such as air conditioner and refrigerators has also played a role. Strong copper imports into China also helped to inflate the demand in apparent terms, growing by 10% in 2020, and this has further helped to absorb some surplus in the offshore market. China's unwrought copper imports have increased 41% YoY to 4mt over the first ten months of the year, driven by several factors including the positive arbitrage and potential purchases by the nation's State Reserve Bureau.

The 'green' revival holds the future for demand prospects

Looking ahead, there is likely to be a synchronised recovery in copper demand from both China and other economies.

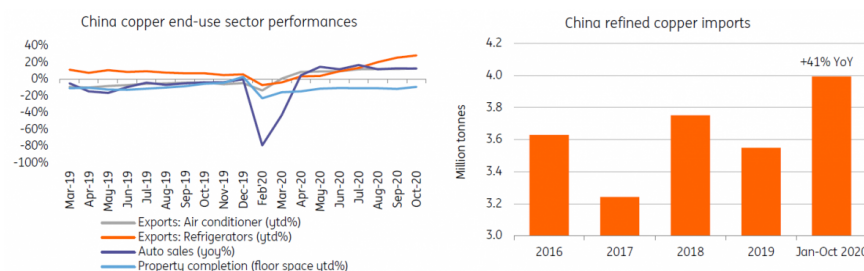
The demand side bull narrative lies in the energy transition, as the world pivots towards a 'green recovery' post-pandemic. We are seeing some major economies gearing towards a greater share of power generation from renewable energy, while also seeing an increase in penetration rates for new energy vehicles (NEVs). Based on existing government plans, we expect green investment induced copper demand to register double-digit growth over the next five years.

Major economies are gearing towards a greater share of power generation from renewable energy

China recently revealed its plan on new energy vehicles (2021-2035), in which it plans to boost NEVs market penetration to 20% by 2025. Copper will benefit from this, along with the need for further charging infrastructure. In Europe, it is expected that the Green Deal could boost the region's copper demand by more than 800kt over the next seven years, according to BNEF. The focus of the projects will likely be on incentives for electric vehicles and charging-infrastructure installations, doubling the retrofit rate in buildings to improve energy efficiency, and supporting wind and solar power.

Globally, multiple countries have pledged to achieve a carbon-neutral economy from 2050, and this reinforces the view of robust demand growth for copper in the years ahead.

End-use sectors recovery drives the real demand, and a robust import leads to higher growth in apparent demand



Source: China Customs, NBS, ING

Price Outlook

Global reportable copper inventories (exchanges and China bonded) have fallen by around 25% from the start of this year, and have remained low on a historical basis. The refined copper market is seen to be relatively balanced in 2021, with a negligible surplus. Given it is estimated that the disruption rate for mine supply next year will still be above the long-term average, along with expectations for a synchronised recovery in global demand, the fundamentals for copper are likely to remain constructive.

As copper prices have already jumped by 64% from the lows of US\$4,630/tonne in March, much of the bull narrative has already been priced in. However, the market will need a favourable macro environment to continue with its current trend, along with further weakness in the USD, which is what we expect. We expect LME 3M copper to average US\$7,400/tonne over 2021.

ING forecasts

	1Q21	2Q21	3Q21	4Q21	FY21
LME Cu (US\$/t)	7,280	7,300	7,350	7,650	7,400

Source: ING Research

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michieltukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com